

## Message

**From:** Donald Harrison [REDACTED]@google.com]  
**Sent:** 12/16/2019 6:58:21 PM  
**To:** Ruth Porat [REDACTED]@google.com]; Philipp Schindler [REDACTED]@google.com]; Tamar Fruchtmann [REDACTED]@google.com]  
**BCC:** Karen Aviram [REDACTED]@google.com]  
**Subject:** Activision Blizzard deal for Dec 19 BC review

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Philipp and Ruth,

I wanted to send an update ahead of BC review on a proposed deal with Activision King Blizzard (ABK), one of the most important game publishers in the world and a key partner across YT and Play (and hopefully Cloud and Stadia). I'll reach out to both of you to discuss, but wanted to share some numbers with you ahead of time as well as go through the strategic rationale - this is our first deal where the economics (which here are hopefully limited to around \$20M over 3 years; do not have a PA signed up for them (for a cross-PA deal) and we need to figure out how to handle). I think we need to do this deal - too important for Play and Cloud to let it go - but this is worth debate. You'll receive a standard BC review this week (and Ruth - hopefully your finance teams have also come up with a perspective). Cloud has already approved this ask.

At its core, this deal is about a large Cloud deal as well as solidifying our Play relationship with ABK. Recently Play has had a rocky relationship with gaming companies that have Tencent as an investor (EPIC is publicly challenging our ability to charge for access to Play, and Supercell has refused to sign up to Project Hug (as has ABK to date)) and this would help solidify our Play relationship and ABK's commitment to our platform, cement a premier top gaming partner on Cloud, increase our gaming ads revenue, and bring an important source of gaming content to YouTube.

Our proposal is largely consistent with Project Hug, which has been approved by BC. There are however some components that require investment beyond existing BC Hug approvals.

Draft BC deck for Dec 19 review is here. Below is a summary of the deal.

## What Google gets:

- Continued Play partnership for ABK titles **at current rev share**; Standard Hug developer obligations (sim-ship, title parity, quality)
- \$200M Cloud commitment over 3-4 years (TK has approved)
- Increased UAC ads spend, plus \$115M/yr DVIP
- Exclusive Esports distribution license for YouTube
- Commitment to partner on Stadia (deal terms TBD)

**EXHIBIT 8019**

## What Google gives (for each of 3 years):

- **GCP credits** equal to 2% of Play consumer spend (no cap)
- **UAC Matching credits:** \$1 UAC ads credit for every \$3 ABK spends in UAC (\$35M/year cap)
- **Co-marketing funds:** \$1 in co-marketing funding for every \$3 of ABK marketing spend (\$20M/year cap)
- **Esports Licensing:** \$45M for exclusive Esports distribution license for YouTube

Based on a projected run rate of \$1B/year in Play consumer spend, the estimated total investment from Google would be:

	Year 1	Year 2	Year 3	Total
<b>GCP Credits</b>				60

<b>UAC Matching Credits</b>		<b>35</b>	<b>35</b>	105
<b>Co-Marketing</b>		<b>20</b>	<b>20</b>	60
<b>Esports Licensing</b>	<b>40</b>	<b>45</b>	<b>50</b>	135
<b>Total</b>	<b>115</b>	<b>120</b>	<b>125</b>	<b>360</b>

Items in **red** require BC approval for total funding (and P&L allocation). All items in **red** have already been approved by Project Hug. BC has only approved one year deals for Hug (which we are looking to extend to a 3 year deal to more closely mirror their cloud commitment).

**To summarize BC asks:**

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- Can we extend the Hug program for 2 additional years?
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- Can we pay the \$135M total Esports Licensing fees?
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- With proposed \$200M Cloud commit, Cloud is willing to fund about \$85M.
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- YT can fund about \$7-30M (TBD).
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- Remaining gap needed to close deal = **\$20-43M**
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- Rationale: In this very turbulent time, this deal would build the first foundational partnership with a Tencent portfolio company, and one of the most important global gaming publishers.

**Regarding Stadia:** You will note that Stadia is currently not a requirement for this deal.

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- ABK is important to the success of Stadia
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- However, ABK leadership currently not engaging in active discussions with Stadia until the broader Google deal is agreed upon.
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- Question to BC: Is requiring a loose commitment for Stadia sufficient (in order not to derail the existing negotiations)?

**Risks of losing deal/competitive pressure** - Without this deal, ABK claims they will:

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- Launch their own mobile distribution platform (partnering with another "major mobile company")
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- Double down with Amazon/Twitch (or MSFT) for Cloud/Esports
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- We believe the Amazon offer to be: \$200M Cloud commit over 3 years + \$100M Esports licensing deal with Twitch over 2 years
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- Facebook apparently made a \$60M/yr offer, but the team owners (eSports) were concerned about the potential success of livestreaming on FB
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- Pull away from Stadia / Ads

All this being said, ABK appears to be interested in committing to a deal with Google (vs competition) and vastly expanding the partnership between our companies (including committing to PR around Cloud partnership, etc).

I'll reach out to discuss.

Thanks,  
Don